

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 06 TEGUCIGALPA 000288

SIPDIS

STATE FOR WHA DAS FISK, WHA/CEN, AND WHA/EPSC  
STATE FOR PM, INL, EB, AND CA

E.O. 12958: DECL: 01/31/2013

TAGS: [OVI](#) [PREL](#) [PGOV](#) [SNAR](#) [ETRD](#) [ECON](#) [MOPS](#) [KJUS](#) [HO](#)

SUBJECT: SCENESETTER FOR WHA/DAS FISK'S VISIT TO HONDURAS  
FEBRUARY 5-8

REF: 02 TEGUCIGALPA 2829

Classified By: Ambassador Larry Palmer;  
Reasons 1.5 (B) and (D).

1. (C) Summary. Honduran President Ricardo Maduro, in office for one year, faces numerous challenges in one of the poorest and most corrupt countries in the Western Hemisphere. His Administration has been stalled on its domestic agenda since June 2002 as it tries to reconcile its ambitious goals to its straitjacketed financial situation, but is trying to start the new year with structural reforms. Bilateral relations between the U.S. and Honduras are excellent; Honduras was the first country in Central America (and the second in Latin America) to sign an ICC Article 98 Agreement with the U.S. and its support for the international counterterrorism effort is steadfast. The United States and Honduras have maintained a long-standing close relationship framed by such events as the establishment of the banana plantations in the late 1800s, the Contra wars of the 1980s, and reconstruction efforts in the wake of the October 1998 fury of Hurricane Mitch. End Summary.

-----  
Key Issues in Bilateral Relationship  
-----

2. (SBU) The central themes in our bilateral diplomatic efforts in Honduras are combating international crime by strengthening governance and attacking corruption, assisting American citizens, fostering economic development, promoting regional stability, promoting trade and investment, and combating terrorism. However, the underlying difficulty to realizing USG objectives is improving the administration of justice and rule of law. President Ricardo Maduro's government is fully engaged on all of these issues, supports judicial and political reform, and is seeking to transform Honduras so that law and order can be restored and economic growth ignited. Maduro has spoken also out strongly on tackling corruption. He faces formidable challenges from entrenched economic and political interests in moving his agenda forward.

-----  
Status of the Maduro Government  
-----

3. (SBU) President Maduro is facing increasing criticism from the political opposition over his government's policies and continued dissatisfaction from his own party's Members of Congress because of his Administration's technocratic style. The Honduran Congress is a focal point of political opposition to his policies. It is a corrupt institution riddled with avaricious politicians, and Maduro's National Party does not control a majority of the unicameral body. The ongoing problems within his own party are serious and threaten his broader political agenda, which will require legislation to advance. Continuing political negotiations will be needed to manage this situation. Maduro recently scored a victory in rallying congressional support for his energy program by securing approval of the direct purchase of electricity from two firms, including U.S. company AES. Maduro's personal life also intruded into the political sphere. His October 2002 wedding to a Spaniard was criticized by many Hondurans who viewed the President as distracted by his personal life.

4. (SBU) The President's standing has remained stalled at a low point since June 2002. Faced with slow progress in his efforts to promote regional economic integration, Maduro's team is pinning its hopes that a U.S.-Central American Free Trade Agreement (CAFTA) can serve as a catalyst to regional economic cooperation. Maduro is also beginning to hear wider disillusionment among the Honduran public as violent crime levels are increasing once again despite his successful initial "zero tolerance" law and order campaign. Notwithstanding his crackdown on street crime, criminal investigations and case closure rates, in particular homicides, remain very low.

-----  
Counterterrorism Cooperation  
-----

-----  
15. (SBU) Maduro is a good and reliable friend of the U.S. on counterterrorism. His government hosted a major U.S. military counterterrorism exercise in March 2002 and has quickly responded with freeze orders to all U.S. requests regarding suspect terrorist bank accounts. No terrorist assets have been found in Honduran financial institutions, to date. The GOH still needs to take the following concrete steps: designate a national coordinator for counterterrorism, file its national report in accordance with United Nations Security Council (UNSC) Resolution 1373, and most of all, sign and/or ratify the five outstanding international conventions/protocols and two OAS conventions (1971 and 2002) against terrorism. It is also of vital importance for Honduras to improve security at its maritime ports, particularly Puerto Cortes.

-----  
Iraq  
-----

16. (C) The GOH is in general supportive of key USG foreign policy goals, and the Ministry of Foreign Affairs will support the USG position on Iraq. Securing a UNSC Resolution on Iraq helped mollify MFA officials concerns about the need for multilateral support via the United Nations. Lacking Rio Group consensus the GOH is not yet willing to make a public statement backing U.S. policy on Iraq.

-----  
Anticorruption  
-----

17. (C) U.S. policy against corruption struck a nerve in Honduras, especially any mention of our visa revocation authorities. Politicians in Congress and certain business elements feel the U.S. is attacking them. Maduro appears committed to addressing corruption, even if it will cost him political support within his party. The Supreme Court President is also on board. However, individual judges remain susceptible to offers of bribes and the Attorney General is unwilling to prosecute high-profile cases. Given the scope of the problem, any public discussion about the country's pervasive corruption is a positive development.

-----  
Supreme Court and Judicial Reform  
-----

18. (SBU) The Supreme Court is developing into an independent branch of power, unlike all of its predecessor courts since democracy was restored in 1982. It is pro-reform in orientation and fighting for its prerogatives. A key emerging issue is whether it can become a fully independent and co-equal branch of political power, consistent with the separation of powers provision in the Honduran Constitution. The established political order is fighting that prospect with all its might. In fact, the Congress seized the political opportunity to introduce legislation that would amend the constitution to give itself the power to interpret the constitutionality of the laws it passes. A ruling by the Supreme Court on the constitutionality of this proposed amendment is expected before the end of February. The Supreme Court recently replaced some corrupt judges in San Pedro Sula and the entire court of appeals in Tegucigalpa.

-----  
Public Security/Human Rights  
-----

19. (SBU) Upon taking office on January 27, 2002 President Maduro's first act was to fulfill his main campaign promise -- a zero tolerance campaign against the country's out-of-control crime situation. He deployed more than 5,000 soldiers to the streets to support the police. The public responded enthusiastically. However, despite the initial success of establishing a visible police presence, violent crime, particularly homicides and kidnappings, has only fallen marginally. Public support is fading and the campaign needs some visible victories to restore confidence in the government's program. The USG is helping the Maduro government establish an anti-kidnapping unit, increase intake/training of police recruits, create a model tourist police force, boost its counternarcotics efforts, and expand the frontier police. The country's geographic position makes it an obvious strategic transit point for narcotics trafficking, alien smuggling operations and other organized crime activities.

10. (SBU) Extrajudicial killings, especially of children/young adults between 1998-2001, have been a source of serious concern and only recently has the GOH begun to take steps to investigate the hundreds of unsolved cases. There are serious problems with child labor in several industries, particularly melon, coffee, and sugar cane (but

not the maquila) sectors, and trafficking in persons of women/children for prostitution in the U.S. and children for commercial sexual exploitation in Central America. USAID and Peace Corps have both been involved in HIV/AIDS prevention.

-----  
Consular Issues  
-----

11. (SBU) Some 500,000 Hondurans, both legal and illegal, live in the U.S., a fact that places immigration issues high on the bilateral agenda. (The population of Honduras is 6.5 million.) There is deep appreciation for the Administration's extension of Temporary Protected Status (TPS) in the U.S. and interest in possible congressional action on the pending Nicaraguan Adjustment and Central American Relief Act (NACARA), which would give immigration parity for Hondurans. It is quite likely that you will be queried about the prospects for another renewal of TPS in July. With 14,000 American citizens residing in Honduras and many thousands visiting Honduras annually for tourism and business, American Citizen Services are a key part of the Embassy's work. Until recently, there was little progress in most of the now more than 30 American citizen murder cases; however, there have been four convictions in these cases in recent months. In the last year the GOH has increased cooperation with the Embassy on these cases, including establishing two prosecutors. However, little progress has been made on extradition cases involving American Citizens wanted for felonies in the U.S.

-----  
Border Relations  
-----

12. (SBU) Honduras has border disputes with its three Central American land neighbors and its seven maritime neighbors. Maduro is personally engaged with his Presidential counterparts to address these issues. Its land and maritime disputes with El Salvador and Nicaragua are the most heated. The Gulf of Fonseca on the Pacific coast is a particularly difficult point. A 1992 International Court of Justice (ICJ) ruling laid out shared areas of control in the Gulf of Fonseca and established the land border between Honduras and El Salvador, although El Salvador has been slow to implement the ruling. In September of this year El Salvador requested a revision of the 1992 ICJ ruling. The Honduran response to El Salvador's request is due at the ICJ on April 1.

13. (SBU) On the Caribbean coast, Honduras and Nicaragua have a long-standing maritime border dispute over the 15th parallel. Honduras provoked Nicaraguan retaliation when it signed a maritime treaty with Colombia recognizing the 15th parallel as its maritime border in 1999. Nicaragua filed an ICJ case over the maritime border and more importantly in 1999 slapped a punitive 35 per cent tariff on Honduran goods that remains in place despite a Central American Court of Justice ruling that it is illegal. With former Nicaraguan President Arnoldo Aleman deposed as President of the National Assembly, GOH officials were expressing optimism that Nicaraguan President Enrique Bolanos would make good on private assurances to lift the tariff and thereby take an important step forward toward regional economic integration, especially given the fact that the ICJ recently ruled in favor of the GOH's petition against the tariff. However, frustration has mounted recently in Honduras as Bolanos has still not scrapped the tariff. The Congress may force Maduro's hand by passing a retaliatory tariff in the near future. The border dispute with Nicaragua is also hampering joint narcotics interdiction efforts.

-----  
Troubled Economy Endangers IMF Program and HIPC Debt Relief  
-----

14. (SBU) President Maduro inherited a stagnating economy and seriously deteriorated government finances from the previous government. The GOH missed all key International Monetary Fund (IMF) targets in 2001. Even after the Maduro economic team won passage of austerity and tax measures in May 2002, the government's budget deficit is still expected to be a high 5.6 percent of GDP. It is important for the GOH to undertake the meaningful and long overdue reforms needed to work out a new IMF program.

15. (C) The GOH failed to reach agreement with the IMF mission in November 2002 on draft terms of a three-year Poverty Reduction and Growth Facility Program (PRGF) because of the GOH's limited efforts to address the budget deficit. On January 29, the macro team went to Washington to discuss with the IMF its planned measures (elimination of tax exemptions and loopholes, freezing of many government salaries, and a draft civil service reform law). The GOH believes it can reduce the central government deficit to three percent in 2003. If approved, the GOH will try to get the legislation through Congress in February, setting the

stage for the signing of a letter of intent in March and IMF Board approval in April.

16. (SBU) International Financial Institution (IFI) and bilateral donor disbursements (USD 140 million) will be held up until the new IMF program is in place. There could also be pressure on GOH Paris Club debt service payments (USD 100 million per year). In the meantime, the completion point for Highly Indebted Poor Countries (HIPC) debt reduction (worth USD 900 million) continues to slip back further. If unaddressed, this fiscal situation could also impact Honduras' eligibility for Millennium Challenge Account grants.

17. (SBU) The Honduran economy is growing slowly (estimated real GDP growth of two percent in 2002). Low world coffee prices continue to hurt the economy in rural areas. Inflation continues to decrease slowly, estimated at 8-9 percent in 2002. The currency is depreciating at a rate of about five percent per year. The economy is dominated by agriculture - particularly the production of coffee, bananas and cultivated shrimp - although the in-bond apparel assembly industry has grown dramatically over the past decade and remittances, from Hondurans living overseas, continues to grow rapidly (up 38 percent in the first six months of 2002) and have become the most important source of foreign exchange. The U.S. is Honduras' largest trading partner; roughly 150 U.S. companies do business here. While many social indicators are improving, two-thirds of all Hondurans live in poverty and average educational levels are very low.

-----  
U.S.-Central America Free Trade Agreement (CAFTA)  
-----

18. (SBU) Maduro has personally identified himself with CAFTA as his government's principal trade objective. The Minister of Industry and Trade is reorganizing the Ministry (historically fairly weak) and adding staff in a belated effort to get ready for and keep up with the negotiations. The Maduro administration has also been more cooperative with the U.S. in the World Trade Organization (WTO) in Geneva. Honduras (along with other Central American countries) has been supportive in the FTAA ministerials but to date has not taken an active role in the negotiating groups.

19. (SBU) Latent protectionism exists in the private sector, especially agriculture, but the general attitude toward a free trade agreement in Honduras is guardedly positive. The textile and apparel industry in particular believes an FTA is the only way that the Honduran apparel sector can survive the elimination of quotas in 2005 and compete with Asian manufacturers. As such, it is the strongest supporter of CAFTA.

-----  
U.S. Investment Faces Problems  
-----

20. (SBU) The Maduro government understands that Honduras needs foreign (and domestic) investment to spur economic growth but in 2002 placed emphasis on the more immediate problems of political and judicial reforms, the fiscal deficit, and needed improvements in security, education and health. The government identified tourism, agribusiness, and forestry as important sectors that could create much-needed jobs. While some efforts to promote tourism have paid off, little headway has been made in the other sectors.

21. (SBU) Much needs to be done to declare Honduras "open for business." Maduro needs to find a way to get his cabinet (and the prickly legislative and judicial branches) to make meaningful changes that will resolve the key problems: poor and expensive infrastructure; weak legal system; personal security, education and health conditions; land tenure problems; and opposition to large foreign investments by well-connected vested interests.

22. (SBU) The Honduran government has stalled in its past efforts to liberalize and privatize the electricity and telecommunications markets. After failure of the National Electric Energy Company's (ENEE's) 210 mega-watts electricity tender in late 2002, the GOH negotiated quick contracts with the top bidders Lufussa and U.S. company AES (which seeks to build a \$600 million combined cycle plant in Puerto Cortes). Initial congressional ratification of the contracts (controversial in the case of AES) occurred January 30. The GOH is studying ways to restructure and liberalize the energy sector. The GOH telecom regulatory agency is also bidding out a second cellular phone license this year; one U.S. company has been pre-qualified. In late January, Maduro announced that the GOH will issue tenders for supply of some basic telephony service by the private sector during 2003 (an acknowledgment of the lack of capability of the state-owned Hondutel to add new line).

23. (SBU) Land tenure problems (combined with a weak

judicial system) are endemic in Honduras, and undermine efforts to develop the tourism, agriculture and forestry sectors. They also deter new investments in a variety of other sectors. The Embassy has files on 112 property dispute cases (generally squatter/land reform cases and title disputes), of which 15 are active. There are an additional 65 commercial disputes, of which eight are currently active. The GOH has adopted a law allowing some of the land cases to be submitted to arbitration within the next six months and is working on an improved property registry system. In recent months, we have seen notable progress in handling by the judicial system of commercial and investment disputes involving U.S. citizens. It would be very useful if, during your visit, you could raise the importance of continued progress, especially in the Moore case in Roatan. (reftel).

-----  
Money Laundering and Bank Failures  
-----

124. (SBU) Strengthened money laundering legislation, with an anti-terrorist financing clause, was the first law to be adopted by the new Congress in late February 2002. The GOH has followed up rapidly with creation of a Financial Information Unit (FIU). Currently, 87 potential cases are under investigation. The FIU has seized over USD 1.5 million in frozen accounts, with another 50 million lempiras (USD 2.94 million) in cash and 40 million lempiras (USD 2.35 million) in goods (vehicles, real estate, etc.) in money laundering investigations. Weakness of the financial system remains a key concern. The GOH took over the two most troubled banks in May 2002 (one has since been closed), arranged for the absorption of a third undercapitalized bank and is actively promoting mergers among the remaining 20 private banks.

-----  
Bilateral Political/Military Issues  
-----

125. (C) In January of 1999, the constitution was amended to abolish the position of military commander in chief of the Honduran Armed Forces (HOAF), thus codifying civilian authority over the military. Honduras now has a civilian Minister of Defense (MOD) and a Chief of the Joint Staff who heads the HOAF. Civilian control is well accepted by the HOAF, and the transition to civilian control has resulted in greater transparency and fiscal accountability. The current MOD, Fred Breve, enjoys a good relationship with the HOAF military leadership, but the Office of the Minister of Defense still lacks a staff that could provide institutional memory and continuity between the change in political administrations.

-----  
Cerro La Mole Radar  
-----

126. (C) In 1993, the U.S. entered into an agreement with the GOH regarding the maintenance of the radar located at Cerro La Mole, under which it agreed to pay 75 percent of maintenance costs up to \$400,000 per year. The U.S. has paid nothing under the agreement, and the issue affects relations between the U.S. and Honduran militaries. Post has sought guidance from DOD and State on how to resolve our obligations, and recommended that the U.S. either replace the radar with a solid state version (TPS-78) or with another TPS-70 transferred from counterdrug programs. Alternatively, the U.S. could repair the radar to operational status. When operational, the radar provides a view of the Honduras-Nicaragua-El Salvador border areas and the Gulf of Fonseca on the Pacific Ocean. If operational, the radar could be helpful in the fight against narcotrafficking.

-----  
A Great Tragedy  
-----

127. (U) At approximately 8:55 p.m. on December 11, 2002, a U.S. Army Black Hawk helicopter from Joint Task Force Bravo crashed while engaged in a night training exercise -- killing five U.S. soldiers who belonged to the 1st Battalion, 228th Aviation Regiment. The helicopter flew from Soto Cano Air Base to La Mesa international airport in San Pedro Sula to participate in a night landing exercise. After refueling the helicopter headed back to Soto Cano, and 40 minutes later crashed into the mountains near Santa Cruz de Yojoa, which is 85 miles north of Tegucigalpa. A U.S. Army investigation into the cause of the crash is ongoing.

-----  
Embassy Tegucigalpa  
-----

128. (SBU) Embassy Tegucigalpa is a medium-sized post, employing 140 U.S. citizens and 300 Hondurans among 20 USG

agencies. Our Peace Corps program, with more than 220 volunteers, is one of the world's largest, and the USAID mission had a FY02 budget of USD 34.5 million. The Mission maintains a Consular Agent in Honduras' second city and industrial center, San Pedro Sula. Five-hundred and fifty U.S. service men and women are stationed at Honduras' Soto Cano Air Base under the auspices of SOUTHCOM as Joint Task Force Bravo. In 1954, the USG and GOH signed a Bilateral Military Assistance Agreement that set forth their intention to work closely together to foster peace and security in the Western Hemisphere. The ICC Article 98 Agreement with Honduras is therefore a particularly important accomplishment, and will enable our military forces to continue to work together in such areas as disaster recovery, joint training exercises, and counternarcotics missions.

Palmer